

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Annual Compliance Review, 2012

Docket No. ACR2012

CHAIRMAN'S INFORMATION REQUEST NO. 4

(Issued January 18, 2013)

To clarify the basis of the Postal Service's estimates in its FY 2012 Annual Compliance Report (ACR), filed December 28, 2012, the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than January 25, 2013.

Standard Mail

1. The FY 2012 Annual Compliance Report ("ACR") states that "only the Postal Service's Governors have the authority to change prices of postal products. Pricing decisions are based upon the application of statutory and regulatory requirements, taking into consideration the Governors' independent evaluation of market and business strategy concerns." 2012 ACR at 16 (footnote omitted). The ACR also states that "strict adherence to above-CPI price increases also impairs the pricing flexibility the Postal Service is guaranteed under the PAEA." *Id.* at 18.

- a. Please clarify whether the Postal Service takes the position that the Governors' pricing authority is not subject to the duty to comply with remedial orders of the Commission issued pursuant to 39 U.S.C. § 3662, such as the Standard Mail Flats remedial orders in the FY 2010 Annual Compliance Determination, as affirmed by the U.S. Court of Appeals for the District of Columbia Circuit?
2. Please refer to the FY 2012 ACR, p. 19, Table 3, "Planned Standard Mail Flats Price Increases."
  - a. Please confirm that under the Postal Service planned schedule, unless changed, the Governors would increase Standard Mail Flats by 105 percent of CPI, *e.g.*, if the annual price cap were 2.0 percent, the Postal Service would increase Flats by 105 percent of 2.0 percent, or 2.1 percent. If not confirmed, please explain.
  - b. Did the Governors give approval to the "three-year schedule of above-CPI price increases for Standard Mail Flats" presented in Table 3 of the ACR? 2012 ACR at 18-19. If not, did the Postal Service submit this schedule pursuant to an earlier delegation of authority to postal management? See, *e.g.*, Docket No. MC2012-14/R2012-8, Notice of the U.S. Postal Service (Apr. 30, 2012), Attachment A, Governors' Resolution.
3. In response to CHIR No. 1, question 2(c), the Postal Service explains that "[g]iven the product's low cost coverage and the limitations of the price cap system, the shortfall is unlikely to be eliminated by the end of 2016, when the Commission will commence a comprehensive review of the present regulatory system." For the following questions, please assume that the Commission makes no changes to the applicable regulations.
  - a. Please provide the unit revenue expected as a result of above average CPI increases for Standard Mail Flats and the expected unit attributable cost for Standard Mail Flats for all fiscal years beginning in FY 2013 and

continuing until the unit revenue of the Flats product exceeds its unit attributable cost. Please explain all assumptions related to changes in unit attributable costs and volumes. Provide all supporting workpapers.

4. Please explain how the Postal Service anticipates changes in the Standard Mail Flats mail mix (i.e. weight, presortation level, dropshipping level, etc.) will impact the unit attributable costs and unit revenues of Standard Mail Flats in the future. Provide any available supporting documentation.
5. Please provide any data available that demonstrates a migration of Standard Mail Flats to other products. Please explain how the Postal Service anticipates this migration will impact the Standard Mail Flats cost coverage.
6. The Postal Service notes that the avoided cost estimate for Automation Mixed AADC Letter decreased from 1.8 cents in FY 2011 to negative 0.3 cents in FY 2012. FY 2012 ACR at 21. The Postal Service explains that this is an anomalous result caused by using Proposal 19 from Docket No. RM2012-2 and it does not plan to base future pricing decisions on this anomalous avoided cost.  
*Id.*
  - a. Please confirm that the change is a result of Docket No. RM2012-2 Proposal 17, not Proposal 19. If not confirmed, please explain how Proposal 19, which deals with the First-Class Mail Letter model impacts this Standard Mail avoided cost.
  - b. Please explain how the Postal Service plans to address this anomalous avoided cost in the future so that it will be able to set discounts based on appropriate avoided cost estimates in subsequent years.

#### Special Services

7. The following question refers to USPS-FY12-28, Excel filename “AMS2012.xls.”

- a. Unlike the other cost calculations in column D, the formula for cell D11 adds an additional \$62,716 to the calculation. Please explain what this additional figure represents and why it was included in the calculation.
  - b. Unlike the other cost calculations in column D, the formula for cell D20 adds an additional \$41,197 to the calculation. Please explain what this additional figure represents and why it was included in the calculation.
8. Please confirm that the following list of Address Management Services is accurate and complete: (1) Advance Notification & Tracking System, (2) Address Sequencing, (3) Address Element Correction II Service, (4) Address Information System Viewer, (5) Carrier Route Information System (CRIS), (6) Coding Accuracy Support System Certification (CASS), (7) Change-of-Address Customer Confirmation Letter Reprint, (8) Change-of-Address Information for Election Boards & Registration Commissions, (9) City State, (10) Computerized Delivery Sequence (CDS), (11) Correction of Address Lists, (12) Delivery Statistics, (13) Domestic Mail Manual (DMM) Label, (14) Delivery Point Validation (DPV) System, (15) Delivery Sequence File – 2<sup>nd</sup> Generation Service, (16) enhanced Line of Travel (eLOT) Service, (17) Five-Digit Zip, (18) Locatable Address Conversion Service (LACS Link), (19) Manifest Analysis and Certification (MAC) Batch System Certification, (20) MAC Gold System Certification, (21) MAC System Certification, (22) Multiline Accuracy Support System (MASS) Certification, (23) National Change of Address (NCOA) Service, (24) NCOA Link Service – Address Not Known Service Option, (25) Official National Zone Charts, (26) Presort Accuracy, Grading and Evaluation (PAGE) System Certification, (27) Presort Accuracy, Validation, and Evaluation (PAVE) System Certification, (28) Postal Explorer CD-ROM, (29) Residential Delivery Indicator (RDI) Service, (30) Z4Change, (31) Z4INFO, (32) ZIP + 4 Service, (33) ZIPMove, (34) ZIP Code Sortation of Address Lists, and (35) 99 Percent Accurate Method. If you are unable to confirm, please provide a complete and accurate updated list of Address Management Services.

## International

9. Please refer to USPS-FY12-NP2, Excel file “Reports (Booked).xls”, worksheet A-Pages (md), Table A-1. For inbound Single-Piece First-Class Mail International (FCMI) at Universal Postal Union (UPU) rates from Target and Transition System Countries, costs exceeded revenues. In FY 2012, the negative contribution was more than double the negative contribution in FY 2011. Please explain the causes of this substantial increase in negative contribution and the decrease in cost coverage for the Inbound FCMI product in FY 2012 compared to FY 2011.
10. Please refer to USPS-FY12-NP2, Excel file “Reports (Booked).xls”, worksheet A-Pages (md), Table A-2. Within the market dominant International Ancillary (Special) Services product, which provided a positive contribution, costs for Inbound Registered Mail exceeded revenues. In FY 2012, the negative contribution decreased substantially from FY 2011. Please explain the causes of this substantial improvement in negative contribution and the increase in cost coverage for Inbound Registered Mail in FY 2012 compared to FY 2011.
11. The following questions concern International Money Transfer Service (IMTS). Please refer to USPS-FY12-NP2, and the Excel file “Reports (Booked).xls,” worksheet tab A-Pages (c), Table A-2.
  - a. For FY 2012, no volume variable or product specific costs are reported for the IMTS-Inbound product. For FY 2011, Library Reference USPS-FY11-NP2, in the Excel file “Reports (Booked).xls,” worksheet tab A-Pages (c), Table A-2, reports both volume variable and product specific costs for this product. Please explain the apparent omission of the FY 2012 volume variable and product specific costs for the IMTS-Inbound product, and provide them if they are available.

- b. For FY 2012, no inbound volume is reported for the International Money Transfer Service-Inbound product. Please explain.
  - c. In the 2011 Annual Compliance Determination (ACD) Report at page 158, the Commission directed the Postal Service to provide IMTS-Inbound transaction volumes based upon the POS system as proposed by the Postal Service in Docket No. RM2011-5, Proposal Eleven, or otherwise estimate IMTS-Inbound transaction volumes, for reporting in the FY 2012 Annual Compliance Report. Please explain the Postal Service's response to the Commission's directive.
  - d. For the combined IMTS-Outbound and IMTS-Inbound products during FY 2012, please provide the total number of IOCS tallies, the coefficient of variation (CV) for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage.
- 12. The following questions concern Express Mail Service (EMS) and the Kahala Posts Group.
  - a. Please identify the foreign postal operators that were members of the Kahala Posts Group during FY 2012.
  - b. Please confirm that during FY 2012, the EMS Cooperative Pay-for-Performance Plan was applicable to all members of the Kahala Posts Group. If not confirmed, please explain and provide a copy of the Pay-for-Performance Plan that was applicable to the members of the Kahala Posts Group.
  - c. To the extent that the EMS Cooperative Pay-for-Performance Plan or any other Pay-for Performance Plan is not applicable to any members of the Kahala Posts Group or EMS Cooperative, please identify such member postal operators and explain.
  - d. Please provide the FY 2012 "booked" and "imputed" financial results for EMS entered by the foreign postal operators identified in subpart (a), above.

### Competitive Products

13. Please refer to the Preface to USPS-FY12-NP10 at 2-3, which displays FY 2012 Competitive Product Incremental and Group Specific Costs. Please explain the derivation of the Group Specific Advertising Costs figure. In the response, please provide an electronic spreadsheet illustrating the disaggregated Advertising costs, as well as the data input sources.

### Customer Access

14. According to the Postal Service's FY 2012 Comprehensive Statement on Postal Operations at page 47, many customers "prefer the convenience of alternate access."
  - a. Can you confirm that retail customers are currently unable to purchase the following products from the USPS.com website:
    - i. Media Mail
    - ii. First Class Parcels?
  - b. For what reasons are those products unavailable on the USPS website?
  - c. Are there plans to add those products to the USPS website?
  - d. How many APC's are available 24 hours per day?
  - e. What is the estimated lifespan of the APC's?

- f. What is the average age of the APC's?
- g. Please identify how many APC's have been installed in the last 5 years?
- h. What are the criteria for selecting a location at which to install an APC?

## MODS

- 15. Based on the MODS operation code changes map the Postal Service provided in RM2012-2 (ChIR\_No\_1\_3.xls), how was the Incoming ISS and Incoming OSS average productivity value of 6,054 pieces per hour derived in USPS-FY12-10.STD.LTRS.xls?
- 16. Please provide a map of the MODS operations to MODS operation group for the operational groups shown in USPS-FY12-23 for both the mail processing plant and NDC productivities.
- 17. If the MODS M-32 Handbook (2009) has been updated or if the MODS operational definitions have changed since the FY 2011 ACR, please provide an electronic copy of the updates.
- 18. In the USPS-FY12-23/Programs folder, the FORTRAN program titled modsprod.f contains MODS operation codes (that were not included in the FY 2011 ACR modsprod.f) to account for “default ops.” The specific section of FORTRAN code at issue is extracted from this program and directly follows.

if ((oper.eq.'282').or.(oper.eq.'256').or.(oper.eq.'482').or.(oper.eq.'448').or.  
 (oper.eq.'101').or. \$ oper.eq.'272')) then ! *Added more default ops that may  
 only have hours* if (((tph.gt.0.0).or.(tpf.gt.0.0)).and.(hrs.gt.0.0)) then

- a. MODS operation 482 (DIOSS Multimode, Secondary—Outgoing) is not listed as a TACS system default code in the MODS M-32 Handbook (2009). Why is this operation code being screened before aggregation to the

operational group level and described as a “default ops” in the program note highlighted above?

- b. MODS operation code 101 (MECHANIZED PARCEL SORTING – SECONDARY) is listed as a deactivated MODS operation code in USPS-FY12-7/USPS-FY12-7 Excel Worksheets, USPS-FY12-7 part 2.xls, worksheet titled “Modified Deleted Operations.” However, this MODS operation code 101 is included in the modprods.f program scrub before operation group aggregation code. Please resolve and explain this apparent discrepancy.
19. For any MODS operation code used in the USPS-FY12-23/Programs folder files modspord.f and bmcprod.f that does not map to an operational group provided in response to Question 2 above, please explain its use in the USPS-FY12-LR-23 output and/or calculations (e.g., MODS code ‘02B’ –meter preparation).
20. In the USPS-FY12-23/Programs folder, the FORTRAN program titled bmcprod.f contains a note related to MODS operation code 101. That note states:  
*“if (oper.eq.'101') then ! 101 is now a 'Default' Operation.”*
- Why was this specific line of Fortran code included/applied to the NDCs MODS data in the USPS-FY12-23 bmcprod.f program and not in the FY11-23 bmcprod.f code?
21. In RM2012-2, CHIR 3, question 3, the Postal Service explained that the facility observation from MODS operation 282 with positive work hours and a zero workload is screened out prior to aggregation in the modspord.f program in USPS-FY11-23 to minimize potential bias in operation/productivity groups where default operation codes may be assigned. In USPS-FY12-23, this modspord.f data screen appears to be applied after the facility’s MODS daily tour work hours and volume are grouped for the entire month.

- a. Has the Postal Service evaluated whether the grouped month facility data, particularly for the dual use “default ops” MODS operations, mask daily clock-ring errors that could also potentially bias the productivities downward? If so, please explain the USPS’ Headquarters evaluation process.

22. Please describe the reasons for the changes identified in the chart below between FYs 2011 and 2012 in the work hours logged to the MODS operation codes that may also contain default work hours.

<b>MODS Operation or TACS Default Code*</b>	<b>FY 2011 Operation Work hours</b>	<b>FY 2012 Operation Work hours</b>	<b>Operation Maps To LR-23 Operational /Productivities Group</b>
256 LIPS, Preferential — Incoming [TACS system default for P&DC LDC 13]	114,630	61,211	67-LIPS Incoming
282 DBCS/DIOSS ISS O/G SECONDARY [ TACS system default for LDC 11]	778,529	35,361	8-Out BCS Secondary
272 DBCS/DIOSS OSS O/G SECONDARY [ TACS system default for LDC 11]	8,203	364,801	8-Out BCS Secondary
448 FSS PHASE 2 PROTOTYPE [ TACS system default for P&DC LDC 12]	46,167	114,300	Unknown
482 DIOSS Multimode, Secondary — Outgoing	46,837	251,286	8-Out BCS Secondary
<p><i>*If an employee has not been assigned a base operation number.</i>  Work hours: USPS-LR-7/EXCEL Worksheets/Part 1.xls (worksheet tabs titled: “Cost Segment I-2B. CPool Hrs by Ops&amp;LDC-MODS worksheets”) shown in USPS-FY11-7 part 1.xls, and USPS-FY12-7 part 1.xls.</p>			

23. In Footnote 19 of the FY2012ACR.pdf, the Postal Service explained:

“It appears that, as a result of Proposal 19, Docket No. RM2012-2, ISS productivities increased by 112 percent, thereby reducing the cost of applying a barcode to a Mixed ADC Nonautomation Machinable piece, while at the same time Outgoing BCS secondary productivity dropped 30 percent, thereby increasing the cost of sorting Automation Mixed AADC pieces.”

What factors does the Postal Service believe have contributed to the decrease in productivities seen below for the Outgoing BCS Secondary productivity group?

<b>MODS Productivity Group 8 – Outgoing BCS Secondary</b>	<b>FYs</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
“Scrubbed” TPF/Hour Ratio	10,103	8,576	6,119
“Raw” TPF/Hour Ratio	9,787	8,000	5,836
Source: MODS Group 8 in USPS-FY10-23/Yrscrub2010.xls, USPS-FY11-23/Yrscrub2011.xls, and USPS-FY12-23/Yrscrub2012.xls.			

24. Between FYs 2011 and 2012, two MODS operation code work hours identified as TACS errors increased. Uncorrected LDC 18 TACS work hour errors automatically default to MODS operation code 565 and uncorrected LDC 48 TACS work hour errors automatically default to MODS operation code 756. In the cost segment 3 mail processing SAS program (USPS-FY12-7/ MODS12.txt), MODS operation code 565 is added to the “1Support” cost pool and MODS operation code 756 is added to the “LD48\_ADM” Cost Pool.
- Is the Postal Service able to assess what portion of these TACS work hour errors are in other MODS cost pools? If so, please explain these assessments.
  - What factors have contributed to the increase for each type of TACS work hour error shown below?

<b>TACS Errors Default to MODS Operation Code</b>	<b>LDC</b>	<b>FY 2011 Work hours*</b>	<b>FY 2012 Work hours*</b>	<b>Cost Pool Assignment**</b>
565	18	787,110	1,018,892	"1Support" (mail processing support)
756	48	396,301	488,983	"LD48_ADM" (other LDC 48)
<p>*All appear to be work hour errors.  See MODS M-32 Handbook (2009): <b>"These hours need to be moved from the bad operation number into an accurate account of where the hours were worked; otherwise, the hours remain in 565 for function 1 or 756 for function 4."</b> MODS Handbook at 105 (emphasis added).  ** USPS-FY12-7 SAS Programs/% include/MODS12.txt.  Work Hours:  USPS-FY11-7 Excel Worksheets/USPS-FY11-7 part 1.xls and USPS-FY12-7 Excel Worksheets/USPS-FY12-7 part 1.xls, worksheets titled: "I-2B. CPool Hrs by Ops&amp;LDC-MODS."</p>				

By the Chairman.

Ruth Y. Goldway